

Mr. Mike Ambrose
Jeanne Jugan – Little Sisters of the Poor
185 Salem Church Road
Newark, DE 19713

RE: Audit of the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities – Title XIX for June 30, 2006

Dear Mr. Ambrose,

We have audited the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities – Title XIX, pages 2 through 6 (the Cost Report) and the Nursing Wage Survey (the Survey), for Jeanne Jugan – Little Sisters of the Poor (the Facility) for the year ended June 30, 2006, and issued our report thereon dated November 15, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

There were no deficiencies in internal control over financial reporting that we consider to be material weaknesses, nor were there any instances of noncompliance or other matters that were required to be reported under *Government Auditing Standards*.

However, during our audit, we noted certain matters involving instances of immaterial noncompliance and nonreportable conditions or other matters involving internal control over reporting that came to our attention. The following summarizes our comments and suggestions regarding those matters. We previously reported on the Facility's internal control in our report dated November 15, 2008. This letter does not affect our report dated November 15, 2008 on the Facility's Cost Report and Survey.

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CONDITION 06-01

- Condition: Certain assets selected for testing which were acquired during the fiscal year ended June 30, 2006 had useful lives that differed from the AHA guidelines.
- Criteria: The useful lives of assets for Medicare and Medicaid purposes is set as a guideline for facility's capitalization policy
- Cause: Management has not followed these guidelines consistently.
- Effect: There is the potential for overstating or understating the costs for the year depending on the various lives chosen for the assets.
- Suggestion: Management should assign useful lives consistent with AHA guidelines. Management has since have informed us that they have since implemented this policy.

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CONDITION 06-02

- Condition: In its plant ledger, the facility includes several assets which cost less than \$5,000, the allowable capitalization minimum for Medicare and Medicaid purposes. All assets in the plant ledger must be depreciated over their estimated useful lives, requiring several years before costs can be recovered through Medicare and Medicaid reimbursement. Further, the added volume of assets increases the recordkeeping burden of maintaining the plant ledger.
- Criteria: The allowable capitalization minimum for Medicare and Medicaid purposes is set as a guideline for facility's capitalization policy.
- Cause: Management has not followed the capitalization guidelines consistently.
- Effect: By capitalizing costs under \$5,000, the facility is understating costs for which they could be reimbursed in the current year's cost report. In addition, by spreading the depreciation expense over several years, the following years' costs will be overstated.
- Suggestion: Management should consider increasing its capitalization floor to \$5,000 to allow increased reimbursement in the year of smaller asset purchases and reduce the future burden of maintaining its plant ledger.

CONDITION 06-03

Condition: The Facility allocated benefits including non-salary items in the allocation calculation. This resulted in the improper allocation of benefits to several cost centers.

Criteria: The Medicaid Cost Report Instructions list specific expenses which are considered benefits. Only those costs should be allocated to the Benefits Lines.

Cause: Additional non-salary items were erroneously included in the benefits allocation calculation.

Effect: The calculation for the benefits allocation was incorrect and needed to be recalculated.

Suggestion: Facility should allocate benefits based only on salaries paid to employees.

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CONDITION 06-04

Condition: The Facility eliminated several employee salaries from the cost report because the costs were associated with unallowable areas of the facility. However, the Facility did not remove the benefits associated with these salaries.

Criteria: All expenses incurred in connection with unallowable areas of the Facility need to be removed.

Cause: The benefits associated with the salaries were not removed.

Effect: Benefits were overstated in the Cost Report

Suggestion: The Facility should be sure to remove employee benefits then removing employee salaries from the Cost Report.

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CONDITION 06-05

Condition: The Facility did not remove unallowable fundraising expenses from the Cost Report. Also, the Facility did not remove all costs associated with residence portion of the facility.

Criteria: All expenses incurred in connection with unallowable areas of the Facility need to be removed.

Cause: Certain unallowable costs were not removed from the Cost Report.

Effect: Certain line items were overstated.

Suggestion: Management should adjust the Cost Report to exclude these unallowable expenditures.

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We would be pleased to discuss these comments and suggestions in further detail at your convenience.

McBride, Shopa & Co

Wilmington, Delaware
November 15, 2008